

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 689 – SB 897

February 26, 2013

SUMMARY OF ORIGINAL BILL: Effective July 1, 2013, exempts from state and local sales and use tax any water used to aid in the cleaning, sanitizing, or disinfecting of poultry or poultry products, poultry production houses, or machinery or equipment used to remove or dispose of wastes generated from the raising of poultry.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact – \$162,200

Decrease Local Revenue – Net Impact – \$66,200

SUMMARY OF AMENDMENT (003166): Deletes all language after the enacting clause. Effective July 1, 2013, exempts from state and local sales and use tax any systems or water used directly for the conveyance of eggs or production of poultry products for sales and use or consumption off premises. Requires a farmer to establish, to the satisfaction of the Commissioner of the Department of Revenue, by separate metering or otherwise, that the water is used directly in such conveyance or production to be exempt.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- Based on the 2007 U.S. Department of Agriculture Census Data, and assuming an annual growth rate of one percent, Tennessee poultry and egg production farms are estimated to expend \$10,093,082 on utilities in 2014.
- Twenty five percent, or \$2,523,271 ($\$10,093,082 \times 25.0\%$), of total utility costs are attributed to water used for conveyance of eggs or feeding, watering, environmental control, raising, cleaning or processing of poultry or poultry products.

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- The current state sales tax is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$176,629 ($\$2,523,271 \times 7.0\%$); the recurring decrease in local option sales tax revenue as a result of the proposed exemption is estimated to be \$63,082 ($\$2,523,271 \times 2.5\%$).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [$(5.5\%/7.0\%) \times 4.603\%$].
- The recurring decrease in local revenue pursuant to the state-shared allocation as a result of the proposed exemption is estimated to be \$6,389 ($\$176,629 \times 3.617\%$).
- The net recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$170,240 ($\$176,629 - \$6,389$).
- The total recurring decrease in local sales tax revenue as a result of the proposed exemption is estimated to be \$69,471 ($\$63,082 + \$6,389$).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- Recurring tax savings are estimated to be \$239,711 ($\$176,629 + \$63,082$).
- The recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$8,390 ($\$239,711 \times 50.0\% \times 7.0\%$).
- The recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$2,996 ($\$239,711 \times 50.0\% \times 2.5\%$).
- The recurring increase in local revenue pursuant to the state-shared allocation as a result of 50 percent of tax savings being spent in the economy is estimated to be \$303 ($\$8,390 \times 3.617\%$).
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$8,087 ($\$8,390 - \303).
- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$3,299 ($\$2,996 + \303).
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$162,153 ($\$170,240 - \$8,087$).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$66,172 ($\$69,471 - \$3,299$).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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